GOVERNMENT OF INDIA
AGRICULTURE
LOK SABHA

UNSTARRED QUESTION NO:296
ANSWERED ON:19.11.2007
CONTRACT FARMING
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Will the Minister of AGRICULTURE be pleased to state:

(a) whether a working group has been set up by National Development Council on contract farming;

(b) if so, the details thereof alongwith the deliberations carried on and decision taken by the working group;

(c) the details of crops and regions associated with contract farming alongwith the benefits likely to accrue therefrom;

(d) whether there is any proposal for State regulation, intermediation and monitoring of contract farming; and

(e) if so, the details thereof?

Answer

MINISTER OF STATE IN THE MINISTRY OF AGRICULTURE (SHRI KANTI LAL BHURIA)

(a) Yes, Sir.

(b) The Planning Commission of India had set up a Working Group of the Sub-Committee of National Development Council (NDC) on Agriculture and Related Issues relating to Marketing Reforms, Contract Farming and Agro-Processing Sector on 02.12.2005 under the Chairmanship of the Chief Minister of Punjab. The terms of reference of this Working Group included the following aspects relating to the Contract Farming:

(i) to assess the current status of Contract Farming with a view to identify the lacunae and suggest the appropriate models,

(ii) to suggest an appropriate legal framework with dispute settlement mechanism and compensation procedures,

(iii) to devise a system for providing services including quality inputs, technical knowledge, finance and price fixation for the marketable produce,

(iv) to suggest a system of identifying the technologies to be introduced for contract farming with a provision of compensation for any under-performance or failure of the technologies introduced by the sponsors,

(v) to suggest legal, institutional and financial measures required for encouraging contract farming arrangements between the farmers and the agro-processing industry / exporters; and

(vi) to identify area specific agricultural commodities suitable for Contract Farming for selected agro climatic conditions.

Some of the salient recommendations of the Working Group are given in Annexure −I.

The Report of the Working Group was discussed in the meeting of the Sub-Committee of NDC on Agriculture and Related Issues on 18.04.2007 and subsequently its recommendations were considered by the National Development Council in its 53rd Meeting on 29.05.2007. It was resolved by NDC in the meeting that State Governments wouldencourage development of modern markets by completing the process of amending the APMC Acts and notify the rules thereunder and also encourage development of linkages to markets through a variety of instruments including cooperatives of farmers, contract farming and other means preferred by the States.The process of notifying rules under the amended APMC Legislation is targeted to be completed during 2007-08.

(c) With regard to contract farming, crop-wise and region-wise details, information on employment generated/ to be generated and details of adoption of crop diversification are not being maintained by the Ministry of Agriculture. As per reports received from the State Governments, contract farming is not taking place in Andaman & Nicobar Islands, UT of Chandigarh, Chattisgarh, Andhra Pradesh, Himachal Pradesh, Jammu & Kashmir, Jharkhand, Karnataka, Kerala, Lakshadweep, Madhya Pradesh, Maharashtra, Manipur, Meghalaya, Nagaland, NCT of Delhi, Puduchery, Sikkim, Tripura, Uttar Pradesh, Uttarakhand and West Bengal. The Government of Assam has reported contract farming in 160 hectares in the State. Bihar Government has reported that only 20 hectares area in Begusarai District is undercontract farming. In Goa, there is 1924 hectares of land under contract farming, in Gujarat 2000 hectares, in Haryana only 1416 acres for basmati rice and wheat through HAFED, in Mizoram 2447 hectares and in Punjab approximately three lakh acres. In Orissa, the contract farming of cotton is reported to be in 14000 hectares. In Tamil Nadu, the

contract farming is reported to be in 1.40 lakh hectares for cotton, 0.93 lakh hectares for maize, 3.44 lakh hectares for sugarcane, 0.20 lakh hectares for Jatropha and 0.03 lakh hectares for oilpalm.

Contract Farming has the potential of combining small farmers` efficiency with economy of scale, utilizing corporate management skills, providing assured markets and reducing transaction costs in the value chain by ensuring vertical integration. Several national and multinational processors or fast food chains are increasingly entering into contract with the farmers to encourage them to cultivate farm products (fruit, vegetables, etc.) of the desired quality by providing them not only seeds and other inputs but also assured procurement of the produce at pre-decided prices. Such tie-ups have special significance for small and marginal farmers, who have small marketed surplus and do not have staying power. They may not individually be capable of investing in technology, but through self help groups or cooperatives, there could emerge a desirable institutional framework, through which farmers can suitably reap the benefits of contract farming arrangements. Contract farming is particularly useful for high value crops because it enables the corporates to associate with the farmers and helps in imparting the latest technological know how to them.

Successful Contract Farming has the potential of addressing most of the urgent and critical needs of the Indian Agriculture sector. It offers a mechanism to make small scale farming competitive by enabling small farmers to access technology, credit, marketing channels and information while lowering transaction costs. At the same time, it also offers a feasible and viable model of private sector participation in agriculture on a massive scale. Successful Contract Farming also provides a platform for supply of reliable agricultural produce of specified quality for the establishment and development of processing sector and reliable and competitive channel for supply for exports as well.

(d) Yes, Sir.

(e) The Model Agricultural Produce Marketing (Regulation) Act circulated by the Central Government to the States in 2003 for implementing marketing reforms has provisions for the registration of contract farming sponsors and recording of contract farming agreements with the Agricultural Produce Marketing Committee (APMC) or a prescribed authority under the Act, protection of title or rights of the farmers over the land under such contracts, dispute settlement mechanism and a model draft agreement suggesting various terms and conditions. By now,relevant provisions have been made by 18 State Governments/ UTs in their respective APMC Acts for providing a legal framework to contract farming. In seven States/ Union Territories there are no APMC Acts, therefore, there is no regulation of contract farming in such States / UTs. The Model Act circulated by the Ministry is suggestive in nature, and, since Agriculture is a State subject, it is for the State Governments to decide on the implementation, intermediation and monitoring of the contract farming arrangements in their State. To help States in the formulation of Rules in this regard, the Ministry of Agriculture has also circulated a set of Model APMC Rules to them for adoption.

Annexure -I

Salient Recommendations of the Working Group

1. A glaring gap exists in marketing infrastructure including he crucial post harvest infrastructure. Agriculture markets lack basic facilities.

2. In order to ensure better farm income, there is a need to bring, about market reforms. While some States have amended the APMC Act, DAC has worked out a model APMC Act which covers various aspects that will benefit the farmers and facilitate Public Private Partnership (PPP) to interplay for a bigger and significant role.

3. Production system should be closely integrated with market.

4. There is a need to establish modern terminal markets, perishable cargo centres and AEZs.

5. Processing and value addition near farm gate should be promoted.

6. Special arrangements for marketing should be arranged for the North East Regions and other difficult and special areas.

7. Taxation and levis involving inter-State movement of agriculture produce should be rationalized.

8. The system of Negotiable Warehouse Receipt should be introduced effectively all over the country.

9. There should be no roll back on liberalization on the EC Act.

10. There should be a synergy amongst similar schemes implemented by different Departments.

11. Where different models of contract farming can operate in different parts of the country, a quasi-judicial dispute settlement mechanism should be put in place.

12. Setting up of Terminal Markets in well identified areas is to be encouraged. Terminal Markets enjoin building up of relevant infrastructure and services.